

Good information systems and active problem seeking can help managers get on top of crisis situations. Good preparation helps as well; there's no need to wait for crises to hit before figuring out how to best deal with them. Managers can be assigned to crisis management teams ahead of time, and crisis management plans can be developed to deal with various contingencies. Just as police departments and community groups plan ahead and train to handle civil and natural disasters, managers and work teams also can plan ahead and train to deal with organizational crises. Many organizations offer crisis management workshops that address issues like the rules shown in the nearby box. The intent of these programs is to prepare managers for unexpected high-impact events that threaten an organization's health and well-being.

Six Rules for Crisis Management

1. *Figure out what is going on*—Take the time to understand what's happening and the conditions under which the crisis must be resolved.
2. *Remember that speed matters*—Attack the crisis as quickly as possible, trying to catch it when it is as small as possible.
3. *Remember that slow counts, too*—Know when to back off and wait for a better opportunity to make progress with the crisis.
4. *Respect the danger of the unfamiliar*—Understand the danger of all-new territory where you and others have never been before.
5. *Value the skeptic*—Don't look for and get too comfortable with agreement; appreciate skeptics and let them help you see things differently.
6. *Be ready to "fight fire with fire"*—When things are going wrong and no one seems to care, you may have to start a crisis to get their attention.

Problem-Solving Environments

Figure 7.3 shows that problems must be solved in three different decision conditions or environments—certainty, risk, and uncertainty. Although managers have to make decisions in each of these environments, the conditions of risk and uncertainty are common at higher levels of management where problems are more complex and unstructured.

Certain Environment

The most favorable decision situation for a manager or team leader is to face a problem in a **certain environment**. This is an ideal decision-making situation because full and complete factual information is available about possible alternative courses of action and their outcomes. The decision maker's task is simple: Study the alternatives and choose the best solution. Certain environments are nice, neat, and comfortable for decision makers. However, very few managerial problems are like this.

A certain environment offers complete information on possible action alternatives and their consequences.

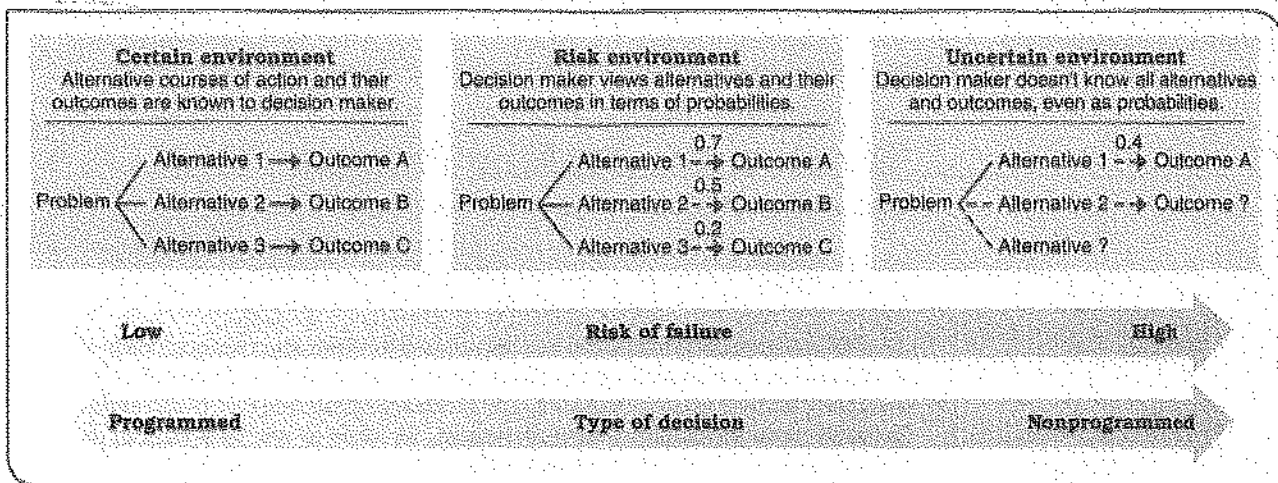


FIGURE 7.3 Three environments for problem solving and decision making.

A risk environment lacks complete information but offers “probabilities” of the likely outcomes for possible action alternatives.

Risk Environment

A basic fact of managerial decision making is that many if not most, management problems emerge in **risk environments** where facts and information on action alternatives and their consequences are incomplete. Decision making in risk environments requires the use of *probabilities* to estimate the likelihood that a particular outcome will occur (e.g., 4 chances out of 10). Because probabilities are only possibilities, people vary in how they act under risk conditions. Some of us are risk takers and some are risk avoiders; some of us gain from taking risks and others lose.

Dominio's Pizza CEO J. Patrick Doyle is a risk taker. When deciding to change the firm's pizza recipe, he ran a television ad admitting that customers really disliked the old one because it was “totally devoid of flavor” and had a crust “like cardboard.” Whereas some executives might want to hide or downplay such customer reviews, Doyle used them to help launch the new recipe. He says it was a “calculated risk” and that “we're proving to our customers that we are listening to them by brutally accepting the criticism that's out there.”³³

General Motors' former Vice Chairman of Global Product Development, Bob Lutz, wasn't a risk taker. He once said: “GM had the technology to do hybrids back when Toyota was launching the first Prius, but we opted not to ask the board to approve a product program that'd be destined to lose hundreds of millions of dollars.”³⁴ He and other GM executives either miscalculated the probabilities of positive payoffs from hybrid vehicles or didn't believe the probabilities were high enough to justify the financial risk. Their Japanese competitors, facing the same risk environment, decided differently and gained the early mover advantage.

An uncertain environment lacks so much information that it is difficult to assign probabilities to the likely outcomes of alternatives.

Uncertain Environment

When facts are few and information is so poor that managers are unable to even assign probabilities to the likely outcomes of alternatives, an **uncertain environment** exists. This is the most difficult decision-making condition. The high level of uncertainty forces managers to rely heavily on intuition, judgment, informed guessing, and hunches—all of which leave considerable room for error. Perhaps there is no better example of the challenges of uncertainty than the situation faced by government and business leaders as they struggle to deal with global economic turmoil. Even as they struggle to find the right paths forward, great political, social, and economic uncertainties make their tasks difficult and the outcomes of their decisions hard to predict.

Learning Objectives

TAKEAWAY QUESTION 2 How do managers address problems and make decisions?

BE SURE YOU CAN • describe how IT influences the four functions of management • define *problem solving* and *decision making* • explain systematic and intuitive thinking • list four cognitive styles in decision making • differentiate programmed and nonprogrammed decisions • describe the challenges of crisis decision making • explain decision making in certain, risk, and uncertain environments

The Decision-Making Process

TAKEAWAY 3 What are the steps in the decision-making process?

LEARN MORE ABOUT | Identify and define the problem • Generate and evaluate alternative courses of action
| Choose a preferred course of action • Implement the decision
| Evaluate results • At all steps—check ethical reasoning

The decision-making process begins with identification of a problem and ends with evaluation of results.

All of those case studies, experiential exercises, class discussions, and even essay exam questions in your courses are intended to get students to experience some of the complexities involved in managerial decision making, the potential problems and pitfalls, and even the pressures of crisis situations. From the classroom forward, however, it's all up to you. Only you can determine whether you step up and make the best out of very difficult problems, or collapse under pressure.

Figure 7.4 describes five steps in the **decision-making process**: (1) identify and define the problem, (2) generate and evaluate alternative solutions, (3) choose a preferred course of

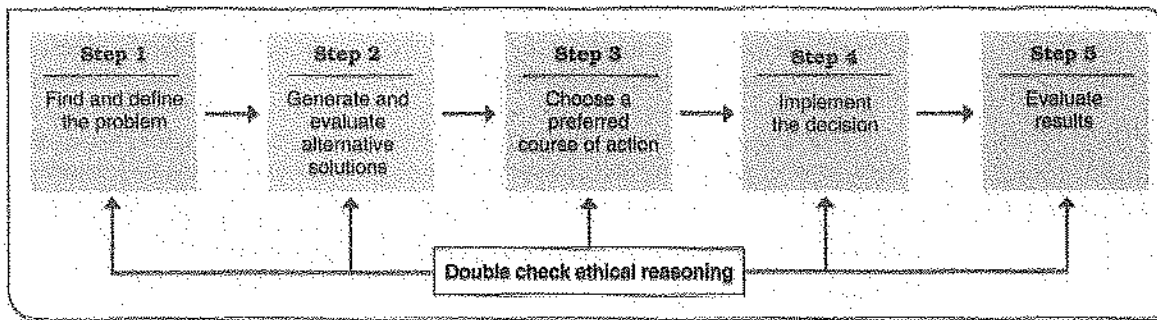


FIGURE 7.4 Steps in the decision-making process.

action, (4) implement the decision, and (5) evaluate results.²⁵ Importantly, ethical reasoning should be double-checked in all five steps. The decision-making process can be understood within the context of the following short case.

The Ajax Case. On December 31, the Ajax Company decided to close down its Murphysboro plant. Market conditions were forcing layoffs, and the company could not find a buyer for the plant. Some of the 172 employees had been with the company as long as 18 years; others as little as 6 months. All were to be terminated. Under company policy, they would be given severance pay equal to one week's pay per year of service.

This case reflects how competition, changing times, and the forces of globalization can take their toll on organizations, the people who work for them, and the communities in which they operate. Think about how you would feel as one of the affected employees. Think about how you would feel as the mayor of this small town in Illinois. Think about how you would feel as a corporate executive forced to make the difficult business decision to close the plant down.

Step 1—Identify and Define the Problem

The first step in decision making is to find and define the problem. Information gathering and deliberation are critical in this stage. The way a problem is defined can have a major impact on how it is resolved, and it is critical here to clarify exactly what a decision should accomplish. The more specific the goals, the easier it is to evaluate results after the decision is actually implemented. But, three common mistakes can occur in this critical first step in decision making.²⁶

Mistake number one is defining the problem too broadly or too narrowly. To take a classic example, the problem stated as "build a better mousetrap" might be better defined as "get rid of the mice." Managers should define problems in ways that give them the best possible range of problem-solving options.

Mistake number two is focusing on symptoms instead of causes. Symptoms are indicators that problems may exist, but they shouldn't be mistaken for the problems themselves. Although managers should be alert to spot problem symptoms (e.g., a drop in performance), they must also dig deeper to address root causes (such as discovering that workers need training in the use of a new IT system).

Mistake number three is choosing the wrong problem to deal with at a particular point in time. For example, which of these three problems would you address first on a busy workday? 1—An e-mail message from your boss requesting a proposal "as soon as possible" on how to handle employees' complaints about lack of flexibility in their work schedules. 2—One of your best team members has just angered another by loudly criticizing her work performance. 3—Your working spouse has left you a voice mail that your daughter is sick at school and the nurse would like her to go home for the day. Choices like this are not easy. We have to set priorities and deal with the most important problems first. Perhaps the boss can wait while you telephone the school to learn more about your daughter's illness and then spend some time with the employee who seems to be having "a bad day."

Back to the Ajax Case. Closing the Ajax plant put a substantial number of people from the small community of Murphysboro out of work. The unemployment will have a significant negative impact on individuals, their families, and the town as a whole. The loss of the Ajax tax base will further hurt the community. The local financial implications of the plant closure will be great, and potentially devastating. The problem for Ajax management is how to minimize the adverse impact of the plant closing on the employees, their families, and the community.

Step 2—Generate and Evaluate Alternative Courses of Action

Once a problem is defined, it is time to assemble the facts and information that can be used to solve it. This is where we clarify exactly what is known and what needs to be known. Extensive information gathering should identify alternative courses of action as well as their potential consequences. Key stakeholders in the problem should be identified, and the effects of possible courses of action on each of these should be considered. Importantly, a course of action can only be as good as the quality of the alternatives considered. The better the pool of alternatives and the more that is known about them, the more likely it is that a good decision will be made.

It is important at this stage to avoid a very common decision-making error—*abandoning the search for alternatives and evaluation of their consequences too quickly*. This often happens due to impatience, time pressure, and plain old lack of commitment. But just because an

insight > LEARN ABOUT YOURSELF

> *Lacking in confidence, procrastination becomes easy. Too many of us have difficulty deciding, and we have difficulty acting.*

Self-Confidence Builds Better Decisions

Does confidence put a spring into your step and a smile on your face? It's a powerful force, something to be nurtured and protected. Managers need the **self-confidence** not only to make decisions but to take the actions required to implement them. Once decisions are made, managers are expected to rally people to utilize resources and take effective action. This is how problems actually get solved and opportunities get explored. But lacking in confidence, procrastination becomes easy. Too many of us have difficulty deciding, and we have difficulty acting.

How would you proceed with the situation in the box—option A, or B, or C?

Jeff McCracken was the team leader who actually had to deal with this situation. He acted deliberately, with confidence, and in a collaborative fashion. After extensive consultations with the team, he decided to salvage the old track. The team worked 24 hours a day and finished in less than a week. McCracken called it a "colossal job" and said the satisfaction came from "working with people from all parts of the company and getting the job done without anyone getting hurt."

Self-confidence doesn't have to mean acting alone, but it does mean being willing to act. Management consultant Ram Charan calls self-confidence a willingness to "listen to your own voice" and "speak your mind and act decisively." It is, he says, an "emotional fortitude" that counteracts "emotional insecurities."

Decision Time

Situation: A massive hurricane has damaged a railroad bridge over a large lake. The bridge is critical for relief efforts to aid a devastated city. You are leading a repair team of 100. Two alternatives are on the table: Rebuild using new tracks, or rebuild with old track salvaged from the lake.

Question: How do you proceed?

- A. Decide to rebuild with new tracks; move quickly to implement.
- B. Decide to rebuild with old tracks; move quickly to implement.
- C. Consult with team; make decision; move quickly to implement.

GET TO KNOW YOURSELF BETTER

Opportunities to improve your self-confidence are everywhere, but you have to act in order to take advantage of them. What about your involvement in student organizations, recreational groups, intramural sports teams, and community activities? Do a self-check: Make a list of things you are already doing that offer ways to build your self-confidence. What are you gaining from these experiences? Make another list that describes what you could do to gain more experience and add more self-confidence to your skills portfolio between now and graduation. Becoming an officer in a club where you are a member? Starting a new student organization? Organizing a community service project for you and your friends? Becoming a tutor for a class where you did well? Volunteering at a local food bank or homeless shelter?

alternative is convenient doesn't make it the best. It may well have less potential than others that might be discovered with the right approach and adequate time commitment.

Decisions often have **unintended consequences** in the form of unanticipated positive or negative side effects. If alternatives are given proper attention, some of these could be identified ahead of time and their implications used to modify and strengthen a decision. A growing number of states and localities, for example, are passing minimum wage laws higher than federal standards. Although the intent is to help low-wage workers fight poverty and cope with living costs, unintended consequences have appeared as affected employers struggle to maintain profits in face of higher labor costs. On the positive side, the higher wages have sometimes driven innovation—for example, a Carl's Jr. owner in California now filters shortening more frequently to extend its life and save costs. On the negative side, the higher wages have sometimes caused layoffs and reduced work hours—for example, a White Castle owner in Illinois eliminated two jobs to protect profit margins without raising prices.³⁷

One way to strengthen the search for alternatives is to actively seek consultation and the involvement of others. Adding more people to the process helps bring new perspectives and information to bear on a problem, generates more alternatives for consideration, reveals more about the possible consequences of the alternatives, and can result in a chosen course of action that is better for everyone involved in—and potentially affected by—the decision. Another way to strengthen the search for alternatives is to put each through a systematic and rigorous **cost-benefit analysis**. This compares what an alternative will cost in relation to what it will return in respect to expected benefits. At a minimum, the benefits of an alternative should be greater than its costs to stay in consideration. And, it should also be ethically sound.

Back to the Ajax Case. The Ajax plant is going to be closed. Given that, the possible alternative approaches that can be considered are (1) close the plant on schedule and be done with it; (2) delay the plant closing until all efforts have been made to sell it to another firm; (3) offer to sell the plant to the employees and/or local interests; (4) close the plant and offer transfers to other Ajax plant locations; or (5) close the plant, offer transfers, and help the employees find new jobs in and around the town of Murphysboro.

Unintended consequences are unanticipated positive or negative side effects that result from a decision.

Cost-benefit analysis involves comparing the costs and benefits of each potential course of action.

Step 3—Choose a Preferred Course of Action

This is the point where an actual decision is made to select a preferred course of action. Just how this choice occurs and who makes it must be successfully resolved in each problem situation. Management theory recognizes rather substantial differences between the classical and behavioral models of decision making as shown in Figure 7.5.

Classical Decision Model

The **classical decision model** views the manager as acting rationally in a certain world. The assumption is that a rational choice of the preferred course of action will be made by a decision maker who is fully informed about all possible alternatives. Here, managers face a clearly defined problem and know all possible action alternatives, as well as their consequences. As a result, managers make an **optimizing decision** that gives the absolute best solution to the problem.

The **classical decision model** describes decision making with complete information.

An **optimizing decision** chooses the alternative giving the absolute best solution to a problem.

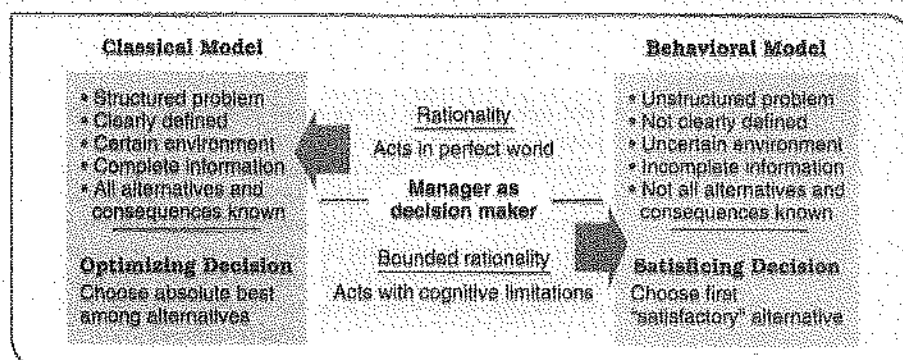


FIGURE 7.5 Differences in the classical and behavioral decision-making models.

determination and creativity to arrive at a decision, they also need the ability and willingness to implement it.

Difficulties encountered when decisions get implemented may trace to **lack-of-participation error**. This is a failure to adequately involve in the process individuals whose support is necessary to put the decision into action. Managers who use participation wisely get the right people involved in problem solving from the beginning. When they do, implementation typically follows quickly, smoothly, and to the satisfaction of all stakeholders.

Lack-of-participation error is failure to involve in a decision the persons whose support is needed to implement it.

Back to the Ajax Case. Ajax ran ads in the local and regional newspapers. The ad called attention to an "Ajax skill bank" composed of "qualified, dedicated, and well-motivated employees with a variety of skills and experiences." Interested employers were urged to contact Ajax for further information.

Step 5—Evaluate Results

The decision-making process is not complete until results are evaluated. If the desired outcomes are not achieved or if undesired side effects result, corrective action should be taken. Evaluation is a form of managerial control. It involves gathering data to measure performance results and compare these results against established goals. If results are less than what was desired, it is time to reassess and return to earlier steps. In this way, problem solving becomes a dynamic and ongoing activity within the management process. Evaluation is always easier when clear goals, measurable targets, and timetables are established at the outset of the process.

Back to the Ajax Case. How effective were Ajax's decisions? We don't know for sure. But after the advertisement ran for two weeks, the plant's industrial relations manager said: "I've been very pleased with the results." That's all we know, and more information would certainly be needed for a good evaluation of how well management handled this situation. Wouldn't you like to know how many of the displaced employees got new jobs locally and how the local economy held up? You can look back on the case as it was described and judge for yourself. Perhaps you would have approached the situation and the five decision making steps somewhat differently.

At All Steps—Check Ethical Reasoning

Each step in the decision-making process can and should be linked with ethical reasoning.²⁹ The choices made often have moral dimensions that might easily be overlooked. For example, job eliminations in the prior Ajax case might not be sufficiently considered for their implications on all stakeholders, including the affected persons, their families, and the local community. We sometimes have to take special care to stay tuned into *virtues*—things like fairness, kindness, compassion, and generosity—and guard against *vices*—things like greed, anger, ignorance, and lust.³⁰

One way to check ethical reasoning in decision making is to ask and answer pointed questions that bring critical thinking into the process. Gerald Cavanagh and his associates, for example, suggest that a decision should test positive on these four ethics criteria.³¹

1. *Utility*—Does the decision satisfy all constituents or stakeholders?
2. *Rights*—Does the decision respect the rights and duties of everyone?
3. *Justice*—Is the decision consistent with the canons of justice?
4. *Caring*—Is the decision consistent with my responsibilities to care?

Another way to test ethical reasoning is to consider a decision in the context of full transparency and the prospect of shame.³² Three **spotlight questions** can be powerful in this regard. Ask: "How would I feel if my family found out about this decision?" Ask: "How would I feel if this decision were published in the local newspaper or posted on the Internet?" Ask: "What would the person you know or know of who has the strongest character and best ethical judgment do in this situation?"

The spotlight questions test the ethics of a decision by exposing it to scrutiny through the eyes of family, community members, and ethical role models.

It also is helpful to check decisions against the hazards of undue rationalizations. Caution is called for when you hear yourself or others saying, "It's just part of the job" . . . "We're fighting fire with fire" . . . "Everyone is doing it" . . . "I've got it coming" . . . "It's legal and permissible" . . . "I'm doing it just for you." Such comments or thoughts are warning signs. If these signs are heeded, it can prompt a review of the decision and perhaps lead to a more ethical outcome.

TAKEAWAY QUESTION 3 What are the steps in the decision-making process?

BE SURE YOU CAN • list the steps in the decision-making process • apply these steps to a sample decision-making situation • explain cost-benefit analysis in decision making • discuss differences between the classical and behavioral decision models • define *optimizing* and *satisficing* • explain how lack-of-participation error can hurt decision making • list useful questions for double-checking the ethical reasoning of a decision

Decision-Making Pitfalls and Creativity

TAKEAWAY 4 What are current issues in managerial decision making?

LEARN MORE ABOUT | Decision errors and traps • Creativity in decision making

Once we accept the fact that we are likely to make imperfect decisions at least some of the time, it makes sense to try to understand why. Two common mistakes are falling prey to decision errors and traps, and not taking full advantage of creativity. Both can be easily avoided.

Decision Errors and Traps

Test Would you undergo heart surgery if the physician tells you the survival rate is 90%? Chances are you would. But if the physician tells you the mortality rate is 10%, the chances of you opting for surgery are likely to be substantially lower!

What is happening here? Well-intentioned people often rely on simplifying strategies when making decisions with limited information, time pressures, and even insufficient energy. Psychologist Daniel Kahneman describes this as a triumph of *System 1 thinking*—automatic, effortless, quick, and associative—over *System 2 thinking*—conscious, slow, deliberate, and evaluative.³³ In the above test, the simplification of System 1 thinking is called "framing" because the decision to have surgery or not varies according to whether the information is presented as a survival rate—encouraging, or a mortality rate—threatening.³⁴ This and other simplifying strategies or rules of thumb are known as *heuristics*.³⁵ Although heuristics can be helpful in dealing with complex and ambiguous situations, they also lead to common decision-making errors.³⁶

Heuristics are strategies for simplifying decision making.

Framing Error

Framing error is trying to solve a problem in the context in which it is perceived.

Managers sometimes suffer from **framing error** that occurs when a problem is evaluated and resolved in the context in which it is perceived—either positively or negatively. Suppose, for example, data show that a particular product has a 40% market share. A negative frame views the product as deficient because it is missing 60% of the market. The likely discussion would focus on: "What are we doing wrong?" Alternatively, the frame could be a positive one, looking at the 40% share as a strong market foothold. In this case the discussion is more likely to proceed with "How can we do things better?" Sometimes people use framing as a tactic for presenting information in a way that gets other people to think within the desired frame. In politics, this is often referred to as "spinning" the data.